



**REPORT OF THE AUDITOR OF PUBLIC ACCOUNTS  
AUDIT EXAMINATION OF THE  
POWELL COUNTY  
SHERIFF'S SETTLEMENT - 1999 TAXES**

**August 8, 2000**

**EDWARD B. HATCHETT, JR.  
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## **EXECUTIVE SUMMARY**

### **POWELL COUNTY DARREN FARMER, SHERIFF SHERIFF'S SETTLEMENT - 1999 TAXES AUGUST 8, 2000**

Sheriff Darren Farmer had adequate records and they were available to auditors at all times. Office staff also cooperated with auditors. The Sheriff had some trouble with franchise bills, and should have spent more time determining refunds and additional charges. But, these problems could have been due to the Sheriff's computer crashing during the first month of tax collections for the 1999 tax year. There was a surplus of \$952 that should be put into an escrow account and reported to the State Treasury Department.

#### **Financial Statement:**

The Sheriff is due a \$935 refund from the Library District and owed the following taxes, which were paid on October 23, 2000.

School Board	\$	10,114
County		888
Extension District		989
Health District		<u>365</u>
Total	\$	<u><u>12,356</u></u>

#### **Comment and Recommendation:**

- The Sheriff Did Not Pay Interest To The Board Of Education Monthly

The Sheriff owed \$1,197 to the board of education for interest earned on school taxes, which was paid on October 23, 2000.



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Edward B. Hatchett, Jr.  
Auditor of Public Accounts

To the People of Kentucky  
Honorable Paul E. Patton, Governor  
Kevin Flanery, Secretary  
Finance and Administration Cabinet  
Mike Haydon, Secretary, Revenue Cabinet  
Honorable Bobby Drake, Powell County Judge/Executive  
Honorable Darren Farmer, Powell County Sheriff  
Members of the Powell County Fiscal Court

Independent Auditor's Report

We have audited the Powell County Sheriff's Settlement - 1999 Taxes as of August 8, 2000. This tax settlement is the responsibility of the Powell County Sheriff. Our responsibility is to express an opinion on the financial statement based on our audit.

We conducted our audit in accordance with generally accepted auditing standards, Government Auditing Standards issued by the Comptroller of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. These standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

The Sheriff prepares his financial statement on a prescribed basis of accounting that demonstrates compliance with the cash basis and laws of Kentucky, which is a comprehensive basis of accounting other than generally accepted accounting principles.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the Powell County Sheriff's taxes charged, credited, and paid as of August 8, 2000, in conformity with the basis of accounting described in the preceding paragraph.

To the People of Kentucky  
Honorable Paul E. Patton, Governor  
Kevin Flanery, Secretary  
Finance and Administration Cabinet  
Mike Haydon, Secretary, Revenue Cabinet  
Honorable Bobby Drake, Powell County Judge/Executive  
Honorable Darren Farmer, Powell County Sheriff  
Members of the Powell County Fiscal Court

Based on the results of our audit, we present a comment and recommendation, included herein, which discusses the following area of noncompliance.

- The Sheriff Did Not Pay Interest To The Board Of Education Monthly

In accordance with Government Auditing Standards, we have also issued a report dated September 19, 2000, on our consideration of the Sheriff's compliance with certain laws and regulations and internal control over financial reporting.

Respectfully submitted,

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Edward B. Hatchett, Jr.  
Auditor of Public Accounts

Audit fieldwork completed -  
September 19, 2000



POWELL COUNTY  
DARREN FARMER, SHERIFF  
SHERIFF'S SETTLEMENT - 1999 TAXES

August 8, 2000

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 200,315	\$ 190,095	\$ 762,423	\$ 302,516
Tangible Personal Property	11,543	12,802	45,922	52,903
Intangible Personal Property				13,034
Fire Protection	1,225			
Franchise Corporation	35,218	37,805	138,976	
Prior Year Franchise	1,055	1,085	4,167	
Additional Billings	462	439	1,758	697
Bank Franchise	18,728			
Increased Through Erroneous Assessments	76	72	289	115
Penalties	2,861	2,714	10,849	4,532
Adjusted to Sheriff's Receipt	(158)	(72)	(432)	(519)
Gross Chargeable to Sheriff	<u>\$ 271,325</u>	<u>\$ 244,940</u>	<u>\$ 963,952</u>	<u>\$ 373,278</u>
<u>Credits</u>				
Discounts	\$ 2,730	\$ 2,608	\$ 10,364	\$ 4,965
Exonerations	1,694	1,607	6,447	2,560
Delinquents:				
Real Estate	11,751	11,094	44,497	17,656
Tangible Personal Property	75	83	299	35
Total Credits	<u>\$ 16,250</u>	<u>\$ 15,392</u>	<u>\$ 61,607</u>	<u>\$ 25,216</u>
Net Tax Yield	\$ 255,075	\$ 229,548	\$ 902,345	\$ 348,062
Less: Commissions (a)	11,128	9,756	36,094	15,080
Net Taxes Due	\$ 243,947	\$ 219,792	\$ 866,251	\$ 332,982
Taxes Paid	242,964	219,280	855,773	332,054
Credit For Commissions Per KRS 134.290				779
Refunds(Current and Prior Year)	95	93	364	149
Due Districts or (Refund Due Sheriff) as of Completion of Fieldwork	(b) <u>\$ 888</u>	(c) <u>\$ 419</u>	(b) <u>\$ 10,114</u>	<u>\$ 0</u>

(a), (b), and (c) See Page 4

POWELL COUNTY  
 DARREN FARMER, SHERIFF  
 SHERIFF'S SETTLEMENT - 1999 TAXES  
 August 8, 2000  
 (Continued)

(a) Commissions:

10% on	\$	10,000
4.25% on	\$	822,685
4% on	\$	902,345

(b) Paid October 23, 2000.

(c) Special Taxing Districts:

Library District	\$	(935)
Health District (Paid October 23, 2000)		365
Extension District (Paid October 23, 2000)		<u>989</u>
Due Districts or (Refund Due Sheriff)	\$	<u><u>419</u></u>

The accompanying notes are an integral part of the financial statement.

POWELL COUNTY  
NOTES TO FINANCIAL STATEMENT

August 8, 2000

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC). According to KRS 66.480(1)(d) and KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met, and as of August 8, 2000, the Sheriff's deposits were fully insured or collateralized at a 100% level with collateral of either pledged securities held by the Sheriff's agent in the Sheriff's name, or provide surety bonds which named the Sheriff as beneficiary/obligee on the bonds.

POWELL COUNTY  
NOTES TO FINANCIAL STATEMENT  
August 8, 2000  
(Continued)

Note 3. Property Taxes

The real and personal property tax assessments were levied as of January 1, 1999. Property taxes were billed to finance governmental services for the year ended June 30, 2000. Liens are effective when the tax bills become delinquent. The collection period for these assessments was November 1, 1999 through May 31, 2000.

Note 4. Interest Income

The Powell County Sheriff earned \$2,398 as interest on 1999 taxes. The Sheriff did not distribute the appropriate amount to the school district as required by statute. Subsequent to the end of fieldwork, the Sheriff paid \$1,197 to the school district. The remainder of interest was used to operate the Sheriff's office.

Note 5. Unrefundable Duplicate Payments And Unexplained Receipts Should Be Escrowed

The Sheriff should deposit any unrefundable duplicate payments and unexplained receipts in an interest-bearing account. According to KRS 393.110, the Sheriff should properly report annually to the Treasury Department any unclaimed moneys. After seven years, if the funds have not been claimed, the funds should be submitted to the Kentucky State Treasurer. For the 1999 taxes, the Sheriff had \$952 in unrefundable duplicate payments and unexplained receipts. Therefore, the Sheriff should send a written report to the Treasury Department.

## COMMENT AND RECOMMENDATION



POWELL COUNTY  
DARREN FARMER, SHERIFF  
COMMENT AND RECOMMENDATION

August 8, 2000

STATE LAWS AND REGULATIONS:

The Sheriff Did Not Pay Interest To The Board Of Education Monthly

The Sheriff did not pay the board of education interest monthly as required. KRS 134.140 (b) states at the time of his monthly distribution of taxes to the district board of education, the sheriff shall pay to the board of education that part of his investment earnings for the month which is attributable to the investment of school taxes, and shall pay the sheriff's fee account the remainder of interest earned. The sheriff paid the board of education \$1,197 and his fee account \$1,200 for interest earned on the 1999 tax collection on October 23, 2000. In the future, we recommend the Sheriff pay interest earned over to the fee account and board of education on a monthly basis as required by statute.

*Sheriff's Response:*

*Will do so in the future.*

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REPORT ON COMPLIANCE  
AND ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING BASED ON AN AUDIT OF THE FINANCIAL STATEMENT  
PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS





Edward B. Hatchett, Jr.  
Auditor of Public Accounts

Honorable Bobby Drake, Powell County Judge/Executive  
Honorable Darren Farmer, Powell County Sheriff  
Members of the Powell County Fiscal Court

Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards

We have audited the Powell County Sheriff's Settlement - 1999 Taxes as of August 8, 2000, and have issued our report thereon dated September 19, 2000. We conducted our audit in accordance with generally accepted auditing standards and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the Powell County Sheriff's Settlement - 1999 Taxes as of August 8, 2000, is free of material misstatement, we performed tests of its compliance with certain provisions of laws and regulations, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Powell County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide assurance on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

Honorable Bobby Drake, Powell County Judge/Executive  
Honorable Darren Farmer, Powell County Sheriff  
Members of the Powell County Fiscal Court  
Report On Compliance And On Internal Control  
Over Financial Reporting Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

This report is intended solely for the information and use of management and is not intended to be and should not be used by anyone other than the specified party. However, this report, upon release by the Auditor of Public Accounts, is a matter of public record and its distribution is not limited.

Respectfully submitted,

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Edward B. Hatchett, Jr.  
Auditor of Public Accounts

Audit fieldwork completed -  
September 19, 2000

